

**AUDIT REPORT
OF
FILLMORE COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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FILLMORE COUNTY COURT

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FILLMORE COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Fillmore County Court, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

1. ***Segregation of Duties:*** One individual was capable of handling all phases of a transaction from beginning to end.
2. ***Unclaimed Property:*** The County Court did not remit outstanding checks which were over three years old and had not been reported to the State Treasurer in accordance with State Statute.
3. ***Case Management:*** The County Court records were not complete and accurate and did not include all necessary supporting documentation. In addition, procedures were not in place to ensure all balances overdue to the County Court would be collected.
4. ***Receipt Procedures:*** Checks were not restrictively endorsed immediately upon receipt, and the County Court's accounting system did not reflect the actual payor for defendant bonds received by the County Court.
5. ***Investments:*** Appealed condemnation cases were not separately invested by the County Court, and condemnation cases were not reflected in the County Court's accounting system.
6. ***Bond Assignments:*** The County Court was not documenting a defendant's election to assign bond to fines and costs.
7. ***Balancing Procedures:*** The County Court did not: 1) reconcile the accounting records to the bank on a monthly basis, 2) record interest earned, 3) make deposits in a timely manner, and 4) correctly record transactions in the accounting records.
8. ***Deposits Not Fully Insured:*** The County Court's bank account exceeded FDIC coverage during each of the 12 months audited.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the Court.

Draft copies of this report were furnished to the Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Court declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted the office of the County Court had a lack of segregation of duties since one person was capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of possible errors or irregularities. However, due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. Personnel are under the direction of both the Nebraska State Court Administrator and the Presiding Judge. We have noted this comment in previous audits.

We recommend the County Court and the Nebraska State Court Administrator review this situation. As always, the cost of hiring additional personnel versus the benefit of a proper segregation of duties must be weighed.

2. Unclaimed Property

Neb. Rev. Stat. Section 25-2717 R.R.S. 1995 requires the County Judge to notify the State Treasurer regarding any fees, money, or costs due or belonging to persons which have not been paid or demanded within three years from the date the funds were paid to the County Court, and, at the direction of the State Treasurer, to remit such funds to the State Treasurer for deposit pursuant to the Unclaimed Property Act.

As of June 30, 2002, the County Court had four checks, totaling \$208, which were outstanding in excess of three years.

As a result, the County Court is not in compliance with Statutory requirements related to the Unclaimed Property Act.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with State Statute.

3. Case Management

Good internal control requires the proper maintenance and organization of County Court records to ensure all case activity is adequately documented. Good internal control also requires timely reimbursement of any petty cash funds maintained by the County Court. Sound accounting practices

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. Case Management (Concluded)

require procedures be in place to ensure collection of balances overdue to the County Court and that adequate supporting documentation be on file to support all non-monetary receipts entered into the County Court's accounting system. Lastly, sound accounting practices require all financial information posted into the County Court's accounting system be complete and accurate.

We noted the following:

- Office records were disorganized, making it difficult for the auditors to follow a proper audit trail.
- Several case file records, such as Releases, Receipts, and District/County Court dismissal documents, were observed within the Court's daily and monthly financial records. These case file records were not filed in their respective case files, and appeared to have been misplaced by the Court.
- The petty cash fund contained unreimbursed receipts, totaling \$19, dating back to 1998.
- Two of twelve cases tested with overdue balances did not have warrants or suspensions issued.
- Two of thirty non-monetary receipts tested did not have supporting documentation.
- Four of thirty checks tested had the incorrect payee names recorded as "pay to" on the JUSTICE System, the Court's accounting and case management system.

As a result, the County Court's records were not complete and accurate and did not include all necessary supporting documentation. In addition, there was an increased risk that not all funds due the County Court would be collected.

We recommend the County Court implement procedures to ensure all case file and financial records are complete and accurate and all necessary supporting documentation is retained and readily available. We also recommend the County Court consider eliminating its petty cash fund due to under-utilization. Lastly, we recommend the County Court implement procedures, including continual review of the Overdue Case Account report, and issuance of suspensions and warrants, when necessary, to ensure collection of all monies due the County Court.

4. Receipt Procedures

Good internal control procedures require the immediate endorsement of all checks received. In addition, good internal control procedures and sound accounting practices require that records completely and accurately reflect receipt information, including the name of the individual from whom monies were actually received.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

4. **Receipt Procedures** (Concluded)

The following was noted:

- Checks were not restrictively endorsed immediately upon receipt.
- “Received from” information recorded on the JUSTICE accounting system related to defendant bonds was not accurate.

As a result, there is an increased risk of loss, theft, or misuse of funds when checks are not restrictively endorsed immediately upon receipt. In addition, when the County Court’s accounting system does not reflect the correct payee, there is an increased risk of liability to the Court should an individual contest a bond posting.

We recommend the County Court always endorse checks immediately upon receipt. We further recommend that receipt information, including the name of the payor, always be accurately reflected on the County Court’s accounting system.

5. **Investments**

Neb. Rev. Stat. Section 76-719.01 R.R.S. 1996 regarding deposits of condemnation awards and interest thereon, states that whenever money remaining on deposit is five thousand dollars or more, the County Court shall place such amount in a savings account or other interest-bearing obligations of the federal government. The Nebraska County Court Procedure Manual states that either the condemnee or condemner, based on appellate action, shall be entitled to interest on such award accruing from the date of deposit. In addition, good internal control requires all investment activities of the County Court be accounted for in the Court’s accounting system.

We noted the following:

- A condemnation award of \$92,454 was appealed on January 16, 2001. However, as of August 14, 2002, the award deposit remained in the County Court’s checking account and was not separately invested. Furthermore, while a separate savings account was opened July 15, 2002 with the intention of moving the award deposit into the separate account, the award amount was not actually transferred until August 15, 2002 at the auditor’s recommendation during audit.
- Condemnation investments of \$7,869 were redeemed and paid out during the fiscal year. However, this activity was not documented in the County Court’s accounting system.

As a result, the County Court was not in compliance with the Statutory requirements related to investment of condemnation awards on appeal. In addition, investments held in the name of and by the Court are not recorded on the Court’s accounting system. This results in an increased risk of loss, theft, or misuse of such funds.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

5. **Investments** (Concluded)

We recommend that because of the interest involved in condemnation awards, these awards be placed in individual or separate accounts to avoid co-mingling with other interest earned by the County Court. We further recommend that because all interest related to the condemnation award in question was credited to the County Court's regular bank account, the Court should recalculate and adjust the amount of interest credited to the condemnation award.

6. **Bond Assignments**

The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states that when a defendant wants to apply any or all of the bond amount to fines and costs, the Assignment of Bond Form (Form No. 13:2) is to be used to document the defendant's assignment. Furthermore, the Court Procedure Manual, also issued by the Nebraska State Court Administrator's Office, also references the use of the Assignment of Bond Form when defendants elect to assign bond money to fines and costs.

The County Court did not use the Assignment of Bond Form as supporting documentation of a defendant's election to assign bond money to fines and costs. The seated Judges were typically including a release of bond to fines/costs as part of a defendant's sentencing orders, however, such a release did not include a signature of the defendant agreeing to assign the bond money to fines and costs.

As a result, there is an increased risk of liability to the Court should a defendant assert it was never intended for the bond to be assigned by the Court.

We recommend the County Court review the Court Accounting and Procedure Manuals sections related to bond assignments and, as instructed in those manuals, begin to document the assignment of bonds using the prescribed form.

7. **Balancing Procedures**

Good internal control would include the preparation of monthly bank reconciliations to ensure bank activity reconciles to the accounting records, the timely deposit of all receipts, and recording of interest earned in the County Court records. Sound accounting practice requires the correct recording in office records of receipts, voided transactions, and checks. Without good internal control and sound accounting, there is an increased risk of abuse or misuse of funds.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

7. **Balancing Procedures** (Concluded)

We noted the following:

- The County Court did not complete a monthly reconciliation between the accounting records and the bank account.
- Interest in the amount of \$1,006, credited to the Court's bank account, was not recorded in the accounting records.
- One insufficient fund check in the amount of \$98 from the prior fiscal year had not been recorded in the accounting records.
- We noted 11 prior fiscal year checks which were written for amounts different from the amounts recorded in the accounting records, with a net variance of \$158, had not been corrected.
- We noted three separate foreign exchange rate reductions made to the Court's deposits by the bank were not adjusted in the accounting records.
- Bank charges of \$39 for the purchase of checks were not recorded in the accounting records.
- Deposits were not made in a timely manner. During our testing we noted receipts dated December 7, 2001 were not deposited until January 14, 2002.

We recommend the County Court reconcile the accounting records to the bank on a monthly basis and follow up on any variances. Further, we recommend deposits of all receipts be made in a timely manner, interest earned be recorded timely, checks be recorded correctly, bank charges be recorded timely, and insufficient funds be recorded in the accounting records.

8. **Deposits Not Fully Insured**

Neb. Rev. Stat. Section 77-2326.04 R.S.Supp., 2001 requires that any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) be secured by either a surety bond or as provided in the Public Funds Deposit Security Act. When deposits are not fully insured, the risk of loss increases.

We noted the County Court's bank account exceeded FDIC coverage during each of the 12 months of the fiscal year. The Court did not obtain any additional security.

We recommend the County Court actively monitor deposit balances and obtain additional securities, as necessary, to ensure the County Court's deposits are fully insured at all times.

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FILLMORE COUNTY COURT

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We have audited the accompanying financial statement of Fillmore County Court as of and for the fiscal year ended June 30, 2002, as listed in the Table of Contents. The financial statement is the responsibility of the Court's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statement presents only the Court's Agency Funds activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of Fillmore County Court for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Fillmore County Court as of June 30, 2002, and the related activity for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2002, on our consideration of Fillmore County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in dark ink that reads "Deann Hauffman CPA". The signature is written in a cursive style.

Deputy State Auditor

August 15, 2002

FILLMORE COUNTY COURT
GENEVA, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS
For the Fiscal Year Ended June 30, 2002

	Balance July 1, 2001	Receipts	Disbursements	Balance June 30, 2002
ASSETS				
Cash and Deposits	\$ 115,680	\$ 235,389	\$ 227,101	\$ 123,968
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 1,574	\$ 35,947	\$ 34,514	\$ 3,007
Law Enforcement Fees	95	2,041	1,966	170
Interest	-	1,127	1,104	23
State Judges Retirement Fund	88	2,059	1,962	185
Legal Services Fees	116	2,228	2,160	184
Due to County Treasurer:				
Regular Fines	7,227	136,711	132,447	11,491
Overload Fines	-	10,350	9,725	625
Regular Fees	147	3,304	3,437	14
Petty Cash Fund	25	-	-	25
Due to Municipalities:				
Regular Fines	125	569	694	-
Trust Fund Payable	106,283	41,053	39,092	108,244
Total Liabilities	\$ 115,680	\$ 235,389	\$ 227,101	\$ 123,968

The accompanying notes are an integral part of the financial statement.

FILLMORE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Fillmore County Court is established by State Statute and is administratively operated through the Court Administrator's Office of the Nebraska Supreme Court, which is part of the State of Nebraska reporting entity. The Statement of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflects only the Agency Funds activity of the Court; the receipts, and their subsequent disbursement to the appropriate entities for which they were collected. The financial statement does not reflect the personal services expenses of the Court, which are paid by the Nebraska Supreme Court, or the operating expenses, which are paid by Fillmore County.

B. Basis of Accounting

The accounting records of the County Court Agency Funds are maintained, and the Statement of Changes in Assets and Liabilities Arising from Cash Transactions has been prepared, on the cash receipts and disbursements basis of accounting. Under this basis of accounting, fines, fees, and receipts relating to trust funds are shown as additions to assets and as an increase in the related liability when received. Likewise, disbursements are shown as deductions to assets and a decrease in the related liability when a check is written. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting. Under GAAP, Agency Funds would be reported in the Statement of Net Assets. Agency Funds are not reported in the Statement of Changes of Fiduciary Net Assets. Agency Funds are used to report resources held by the reporting government in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

2. Deposits and Investments

Funds held by the County Court are deposited and invested in accordance with rules issued by the Supreme Court as directed by Neb. Rev. Stat. Section 25-2713 R.R.S. 1995. Funds are generally consolidated in an interest-bearing checking account; however, the Court may order certain trust funds to be invested separately. Any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation are required by Neb. Rev. Stat. Section 77-2326.04 R.S.Supp., 2001 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

FILLMORE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, which consisted of a checking account, was as follows:

	Total Cash and Deposit <u>Carrying Amount</u>	<u>Cash Amount</u>	Deposit <u>Carrying Amount</u>	<u>Bank Balance</u>
June 30, 2002	\$ 123,968	\$ 125	\$ 123,843	\$ 122,158

However, funds were not entirely covered by federal depository insurance.

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FILLMORE COUNTY COURT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statement of Fillmore County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated August 15, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Fillmore County Court prepared on the basis of cash receipts and disbursements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fillmore County Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to the management of Fillmore County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property), Comment Number 5 (Investments), and Comment Number 8 (Deposits Not Fully Insured).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fillmore County Court's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fillmore County Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Segregation of Duties).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to the management of Fillmore County Court in the Comments Section of the report as Comment Number 3 (Case Management), Comment Number 4 (Receipt Procedures), Comment Number 6 (Bond Assignments), and Comment Number 7 (Balancing Procedures).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink that reads "Deann Haffner CPA". The signature is written in a cursive style.

Deputy State Auditor

August 15, 2002